# COUNTY OF SAN DIEGO, CALIFORNIA
# BOARD OF SUPERVISORS POLICY

| Subject | Policy Number | Page |
|---|---|---|
| Long-Term Financial Obligation Management Policy | B-65 |  |

## Purpose

To establish a policy governing long-term financial obligations that bear the County of San Diego's name or name of any subordinate Agency for the County.

## Background

The Chief Administrative Officer has established the Debt Advisory Committee, the members of which are the Chief Financial Officer, the Auditor and Controller, and the Treasurer-Tax Collector, to provide direct oversight on long-term financings and the portfolio of the County's long-term obligations.

The County recognizes that it may need to enter into long-term financial obligations to acquire or construct capital assets to meet the service needs of the region, and that these financial obligations must be managed properly. The adoption of a long-term financial strategy and policy is important to ensure sound financial management practices. This policy is general and therefore allows for exceptions in extraordinary conditions. For the purposes of this policy, long-term financial obligations are those that exceed one fiscal year, and include certificates of participation, bonds, or similar instruments (including, but not limited to, bank loans and letters of credit) that require the acquisition of capital from the financial markets and are supported by the County's municipal credit rating(s). This policy does not apply to leases in which the payments are not "securitized" or loans for permanent road divisions acquired in accordance with Board of Supervisors Policy J-16, Establishment of Assessment Districts to Provide for Maintenance of Local Roads.

## Policy

It is the policy of the Board of Supervisors that the following guidelines and restrictions will be applied during the debt issuance process and the management of the County's debt portfolio:

### 1. Long-Term Obligation Limits

1.1. All long-term financings shall comply with Federal, State and County Charter requirements.

1.2. All long-term obligations must by approved by the Board of Supervisors after approval and recommendation by the Debt Advisory Committee. The Debt Advisory Committee shall include the Chief Financial Officer, the Auditor and Controller, and the Treasurer-Tax Collector.

1.3. Prior to its recommendation, the Debt Advisory Committee shall assess the ability of the County to repay the obligation, identify the funding source of repayment, evaluate the impact of the ongoing obligation on the current budget and future budgets, assess the maintenance and operational requirements of the project to be financed, and consider the impact on the County's credit rating.

1.4. The term of the long-term obligation will not exceed the useful life or the average life of the project or projects being financed.

1.5. Annual principal and interest payments on long-term obligations of the General Fund will not exceed 5% of General Fund revenue.

**2. Uses of Long-Term Obligations**

2.1. Long-term financial obligations will not be used to finance current operations or for recurring needs.

2.2. The Board of Supervisors may consider long-term financial obligations for the purpose of providing office space or operational facilities to County departments or agencies, upon recommendation of the Debt Advisory Committee. Capital projects identified as candidates for debt financing should have first been identified and prioritized during the development of the County's multi-year Capital Improvement Needs Assessment. If the Debt Advisory Committee deems that the financing is feasible, financially and economically prudent, coincides with the County's objectives, and does not impair the County's creditworthiness, then it will be forwarded to the Board of Supervisors for consideration.

2.3. The Board of Supervisors may consider conduit financing on behalf of Non-Profit Organizations upon recommendation of the Debt Advisory Committee. Initial contact will be directed to the Debt Advisory Committee and if the Committee decides that the conduit financing is feasible, financially and economically prudent, coincides with the County's objectives, and does not impair the County's creditworthiness, it will then be forwarded to the Board of Supervisors for consideration. All expenses related to the conduit financing will be borne by the applicants.

2.4. The Board of Supervisors may consider assessment district and community facilities district financings to provide for public improvements, whether initiated by petition of the property owners, the County or a non-County agency. Initial contact will be directed to the Debt Advisory Committee and if the Committee decides that the financing is feasible, financially and economically prudent, coincides with the County's objectives, and does not impair the County's creditworthiness, it will then be forwarded to the Board of Supervisors for consideration. All expenses related to the assessment district or community facilities district financing will be borne by the applicants.

**3. Structuring Practices**

3.1. Variable rate obligations shall not exceed 15% of the County's outstanding long-term obligations.

3.2. Derivative products, such as interest rate swaps, will be considered only if they meet the economic goals and policy objectives of the County as outlined in the Swap Policy of the Debt Advisory Committee.

3.3. Long-term obligations taken on by organizations utilizing the County as a conduit issuer must qualify for an investment grade rating by one of the nationally recognized rating agencies (either with or without alternative credit enhancement). An exception to this requirement would be private placements subject to approval by the Debt Advisory Committee.

**4. Management Practices**

4.1. The County shall encourage and maintain good relations with credit rating agencies, investors in the County's long-term financial obligations, and those in the financial community who participate in the issuance or monitoring of the County's long-term obligations. A policy of full and open disclosure on every financial report and long-term obligation transaction will be enforced, an investor relations web site will be maintained with current and accurate information, and a credit rating agency presentation/update shall be conducted annually.

4.2. The County of San Diego shall comply with all on-going disclosure conditions and shall file such required documents in a timely manner.

4.3. The County of San Diego shall monitor earnings on bond proceeds and rebate excess earnings as required to the U.S. Treasury to avoid the loss of tax-exempt status.

4.4. The County of San Diego will enforce filing notices of completion on all projects within five years of their financing.

4.5. The County shall continually review outstanding obligations and aggressively initiate refinancings when economically feasible and advantageous pursuant to the Refunding Policy of the Debt Advisory Committee.

| Subject | Policy Number | Page |
|---|---|---|
| Long-Term Financial Obligation Management Policy | B-65 | 4 of 4 |

**Sunset Date**
This policy will be reviewed for continuance by 12-31-17.

**Board Action**
8-11-98 (32)
3-12-2002 (10)
6-15-2004 (22)
12-09-2008 (33)
12-07-2010 (27)

**CAO Reference**

1. Chief Financial Officer
2. Auditor and Controller
3. Treasurer-Tax Collector